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A faint, light gray world map is visible in the background of the page, centered behind the main title. It shows the outlines of the continents and major countries.

Market Brief - Sector

Russian Federation : Russian Far East Market for Food Imports

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(Note: The below information reflects the situation in the Russian Far East under the economic conditions that existed prior to the devaluation of the Russian ruble. Although the recent economic crisis in Russia and the collapse of the banking system has severely affected the ability of Russian importers in the RFE and elsewhere in Russia to finance purchases or conduct normal, commercial transactions, this situation is expected to improve in the future as the Russian government addresses these severe economic problems.)

Overview of the Russian Far East

The Russian Far East (RFE) is comprised of nine territories: Primorskiy Kray, Khabarovskiy Kray, Amurskaya Oblast, Sakhalinskaya Oblast, Kamchatskaya Oblast, and Magadanskaya Oblast, Jewish Autonomous Oblast, Republic of Sakha (Yakutiya), and the Chukotskiy Autonomous Region. The total population of the region exceeds eight million, with the heaviest concentration in Primorskiy Kray (2.3 million) and Khabarovskiy Kray (1.6 million). The largest cities are Vladivostok (730,000) and Khabarovsk (612,000). The most favorable regions for food industries are in Primorskiy, Khabarovskiy, and Amurskiy Regions, where more than 90 percent of all sown areas in the RFE are located. In Magadan, Kamchatka, Republic of Sakha, Sakhalin and Chukotsk the agricultural sector is underdeveloped.

Agricultural development in the RFE has been limited by the relatively extreme climate, poor soil conditions, and Moscow's emphasis on natural resource development in the region during the years of Soviet central planning. For example, only 8 percent of the labor force is engaged in the agricultural sector. The Russian Far East suffers major shortages of grain, for both food and feed, and other food products. As elsewhere in Russia and the former Soviet Union, losses between harvest and consumer are large as a result of a lack of proper equipment, packaging, and transportation.

Due to its location and relatively extreme climate, the RFE is unable to produce enough food to feed its population. Before the breakup of the Soviet Union, much of the RFE's food was supplied by the central government in Moscow, in exchange for natural resources, primarily forestry products, minerals, oil, and fish. Following the breakup of the USSR, the RFE has been forced to look for new sources of food supply, and has increased trade contacts with its immediate neighbors, such as China, as well as other countries, including particularly those in the Asia-Pacific region.

Food Imports in the Russian Far East

During recent years, RFE imports of food products have been growing. In the larger regions of Primorskiy, Khabarovskiy and Magadan, imports comprise an estimated 40-53% percent of all consumption; in more remote northern areas, such as Chukotka, almost all foods are imported. U.S. exports to the RFE have risen rapidly in recent years with growth primarily in foods and processed food products. For example, U.S. food exports to Primorskiy Kray almost tripled from 1993 to 1997, reaching \$61 million.

As agriculture has not been emphasized in regional development, there is a shortage of arable land, soil conditions in many areas are poor (particularly in permafrost regions) and growing

seasons are short. The RFE lacks major agricultural commodities: meat and poultry, wheat, flour, dry milk, fruits and vegetables. According to the official statistics, demand for meat and poultry in Primorskiy Kray is about 95 thousand tons a year. Local producers are able to cover only one fourth of this amount. To a great extent, imported products compensate for this lack. In 1997 Primorskiy kray imported 56 thousand tons of meats: 58 percent was imported from US, 18 percent from China, 11 percent from Australia, 4 percent from Vietnam, 1 percent from New Zealand with the balance from other countries. The same tendency is true for other agricultural sectors, including the dairy products industry. Domestic producers are unable to fulfill demand for fresh and powdered milk and other dairy products despite the fact that Primorskiy Kray alone has more than 30 large milk-processing plants capable of processing 150 to 200 tons of milk per day.

Imported products were more popular 2 to 3 years ago, when they become easily available in the market. Presently, local consumers turn to domestic products, which more accord to Russian taste preferences. At the same time, the food processing industry is one of those which does not suffer from recession in Khabarovskiy and Primorskiy krays and is considered to be rather profitable if properly managed. According to the Primorskiy Food Processing Industry Committee, there are 55 large processing plants in Primorskiy kray and about 200 small and medium sized private food processing companies. The meat and dairy processing industry, soft drinks and alcohol beverages industry and baking and confectionery industry are well represented in Primorskiy and Khabarovskiy krays. The northern territories' food processing industry is less developed. Processing plants are considered to be big consumers of agricultural commodities like meat, dry milk, flour, malt and ingredients.

Best Prospects for U.S. Food Exporters

In general, the conditions are favorable for U.S. suppliers to penetrate the RFE processed foods market. Geographic proximity of the U.S. West Coast provides U.S. imports with an advantage over European products due to more moderate transportation costs and faster delivery times. U.S. products also enjoy growing popularity among RFE consumers as a result of increasing rejection of Chinese products which recently dominated the market. U.S. exporters have gained a leading position in the RFE processed foods market in the past two years. According to official statistics, the United States became the number one exporting country in the RFE with 33 percent of total imports in 1997. In the northern parts of the RFE, U.S. imports represent 90 percent of the total food import market share. The following products are the best prospects in the RFE for U.S. exporters:

1. Red meats (pork, beef)
2. Poultry
3. Grain (wheat, soybean, corn, barley)
4. Fruits (apples, pears, citrus, grape etc.)
5. Flour
6. Processed vegetables (canned and frozen)
7. Breakfast cereals
8. Dry milk

Breakfast cereal is a relatively new product for Russian market. However, Russian consumers like the product a lot. According to local trading companies, breakfast cereals are sold out very fast and demand for it is growing. Local production of breakfast cereals is totally undeveloped and 90 percent of the product is imported from Europe and Australia. As a result, breakfast cereals is a very promising niche market for U.S. exporters. A list of major Russian importers in the RFE is included at the end of this report. (Note: Inclusion of a company on this list does not represent an endorsement by the Foreign Agricultural Service of these companies.) For more information about the Russian Far East market, contact the Agricultural Trade Office in Moscow at (7-095) 234-4049, fax: (7-095) 255-9951, or email at agtrade@corbina.ru, or the FAS office in the U.S. Consulate in Vladivostok via Internet at romanova@online.ru.

The tables below demonstrate US market share and the competitive situation in the RFE:

The 1997 Import Food Market Share by Country (Russian Far East):

\$607 Mln. = 100 percent

USA	33 percent
China	23
South Korea	11
CIS	11
New Zealand	6
Australia	5
Europe	4
Other Asian Pacific Countries	6
Other	1

1997 Food Market Share by Importing Areas

Russian Far East = 100 percent

Primorskiy kray	49 percent
Khabarovskiy kray	15
Sakhalin	11
Magadan	8
Amurskaya oblast	7
Kamchatka	6
Chukotka	3
Republic of Sakha	1

List of Importers in the Russian Far East (July 1998)

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